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Legend

Taxpayer =

Voting Common =

Non-Voting Common =

Target 1 =

Target 2 =

Target 3 =

Target 4 =

Target 5 =

Target 6 =

Shareholder 1 =

Shareholder 2 =

Shareholder 3 =

Shareholder 4 =

Shareholder 5 =

Shareholder 6 =

Shareholder 7 =

Shareholder 8 =

Shareholder 9 =

Shareholder 10 =

Shareholder 11 =

Shareholder 12 =

Property 1 =

Property 2 =

Property 3 =

State X =

Date 1 =

b =

d =

e =

f =

g =

h =

i =

j =

k =

l =

m =

n =

o =

p =

q =

r =

s =

t =

u =

v =

w =

x =

y =

z =

aa =

bb =

cc =

dd =

ee =

ff =

gg =

ii =

jj =

kk =

ll =

mm =

Dear :

This letter responds to your April 6, 2006 request for rulings on the federal income tax consequences of a series of proposed transactions. The information provided for consideration is summarized below.

The rulings contained in this letter are based on facts and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. This office has not verified any of the materials submitted in support of the request for rulings. Verification of the information, representations, and other data may be required as part of the audit process.

Summary of Facts

Taxpayer, a State X corporation, is an accrual basis taxpayer with two classes of stock outstanding, Voting Common and Non-Voting Common. Taxpayer has o shares of Voting Common and p shares of Non-Voting Common outstanding. Pursuant to a buy-sell agreement dated Date 1 among Taxpayer and its shareholders, the value of both Voting Common and Non-Voting Common is \$b per share. The following shareholders hold Voting Common in the following amounts: Shareholder 2, i shares; Shareholder 3, k shares; Shareholder 4, m shares; Shareholder 5, m shares; and Shareholder 6, m shares. The following shareholders hold Non-Voting Common in the following amounts: Target 1, d shares; Target 2, d shares; Target 3, d shares; Target 4, e shares; Target 5, f shares; Target 6, g shares; Shareholder 1, h shares; Shareholder 2, j shares; Shareholder 3, l shares; Shareholder 4, n shares; Shareholder 5, n shares; and Shareholder 6, n shares.

Targets 1 through 6 (collectively, the “Targets”) are State X corporations and holding companies. The Targets each have three authorized classes of stock: Common, Preferred 1, and Preferred 2. Shareholder 2 owns q Preferred 1 shares of Target 1 and Shareholder 4 owns r Common shares of Target 1.

Shareholder 2 owns q Preferred 1 shares of Target 2 and Shareholder 6 owns r Common shares of Target 2.

Shareholder 2 owns q Preferred 1 shares of Target 3 and Shareholder 5 owns r Common shares of Target 3.

Shareholder 2 owns s Preferred 1 shares of Target 4. Shareholder 4 owns t Common shares of Target 4. Shareholder 5 owns t Common shares of Target 4. Shareholder 7 owns t Common shares of Target 4. Shareholder 8 owns u Common shares of Target 4. Taxpayer owns v Common shares of Target 4.

Shareholder 2 owns w Preferred 1 shares and x Preferred 2 shares of Target 5. Shareholder 9 owns y Common shares of Target 5. Shareholder 10 owns u Common shares of Target 5. Shareholder 11 owns u Common shares of Target 5. Shareholder 12 owns u Common shares of Target 5.

Shareholder 2 owns z Preferred 1 shares, and aa Preferred 2 shares of Target 6. Shareholder 4 owns bb Common shares of Target 6. Shareholder 5 owns bb Common shares of Target 6. Shareholder 6 owns bb Common shares of Target 6.

Shareholder 2 owns Property 1 and Property 3. Taxpayer leases Property 3 from Shareholder 2. Shareholder 9 owns Property 2. Shareholder 2 and Taxpayer lease portions of Property 2 from Shareholder 9.

Proposed Transaction

The Taxpayer proposes the following transaction (the "Transaction"):

For purposes of succession planning and to facilitate the transfer of Properties 1, 2, and 3 to Taxpayer, Shareholders 4, 5, and 6 will surrender cc shares of Non-Voting Common in exchange for cc shares of Voting Common from Taxpayer (the "Recapitalization"). As a result of the Recapitalization, there will be dd shares of Voting Common stock outstanding and ee shares of Non-Voting Common outstanding.

In order to eliminate an unnecessary corporate structure and related expenses, the Targets each will merge with and into Taxpayer under State X law, with Taxpayer surviving the mergers (collectively, the "Mergers"). In the Mergers, the shareholders of the Targets will receive shares of Non-Voting Common in exchange for their shares of the Targets. Following the Mergers, there will be dd shares of Voting Common outstanding. The amount of Non-Voting Common outstanding, ee, will be decreased by the amount of Non-Voting Common received by Taxpayer as a shareholder of Target 4, ff. Thus, after the Mergers, the amount of Non-Voting Common outstanding will be gg.

In order to eliminate uncertainty with respect to the amount of future rental payments, to reduce cash outflows in the form of rental payments, and to eliminate unnecessary accounting and administrative costs associated with the current ownership structure, Shareholder 2 will transfer Property 1, Property 3, and its leasehold interest in Property 2 ("Property Interests") and Shareholder 9 will transfer Property 2 to Taxpayer in exchange for Non-Voting Common (the "Exchange"). Shareholder 2 and Shareholder 9 will receive ii and jj shares of Non-Voting Common, respectively, in the Exchange.

The Targets, Shareholder 2, and Shareholder 9 (the "Transferors") will transfer their assets in the Mergers and the Exchange to Taxpayer pursuant to one overall reorganization plan. After the asset transfers in the Mergers and the Exchange and prior to the deemed distribution of Non-Voting Common by the Targets to their shareholders, there will be dd shares of Voting Common and ll shares of Non-Voting Common outstanding. Subsequent to the deemed distribution of Non-Voting Common to the Targets' shareholders, the number of outstanding Non-Voting Common will be mm shares.

Representations

Mergers

The following representations have been made on behalf of the Targets and Taxpayer with respect to each of the Mergers:

1. The fair market value of Taxpayer stock and other consideration received by each Target shareholder will be approximately equal to the fair market value of the respective Target stock surrendered in the exchange.
2. At least 40 percent of the proprietary interest in each Target will be exchanged for Taxpayer stock and will be preserved (within the meaning of Treasury Regulations § 1.368-1(e)).
3. Taxpayer has no plan or intention to reacquire any of its stock issued in the transaction.
4. Taxpayer has no plan or intention to sell or otherwise dispose of any of the assets of any Target acquired in the Mergers, except for dispositions made in the ordinary course of business or transfers described in § 368(a)(2)(C).
5. The liabilities of any of the Targets assumed by Taxpayer and the liabilities to which the transferred assets of any of the Targets are subject were incurred by the respective Target in the ordinary course of its business.
6. Following the transaction, Taxpayer will continue the historic business of each Target or use a significant portion of each Target's historic business assets in a business.
7. Taxpayer, the Targets, and the shareholders of each Target will pay their respective expenses, if any, incurred in connection with the transaction.
8. There is no inter-corporate indebtedness existing between any Target and Taxpayer that was issued, acquired, or will be settled at a discount.
9. No two parties to the transaction are investment companies as defined in section 368(a)(2)(F)(iii) and (iv).
10. No Target is under the jurisdiction of a court in a Title 11 or similar case within the meaning of § 368(a)(3)(A).
11. The fair market value of the assets of each Target transferred to Taxpayer will equal or exceed the sum of the liabilities assumed by Taxpayer plus the amount of liabilities, if any, to which the transferred assets are subject.

The Exchange

The following representations have been made by Taxpayer with respect to the Exchange:

1. No stock or securities will be issued for services rendered to or for the benefit of Taxpayer in connection with the Transaction, and no stock or securities will be issued for indebtedness of the Taxpayer that is not evidenced by a security or for interest on indebtedness of the Taxpayer which accrued on or after the beginning of the holding period of the Transferors for the debt.
2. None of the assets to be transferred were received by any of the Transferors as part of a plan of liquidation of another corporation and none of the following types of assets are being transferred to Taxpayer: income items, such as accounts receivable or commissions due; partnership interests or the assets of a partnership whether or not pursuant to a partnership liquidation; patents or patent applications; copyrights; franchises; trademarks; or trade names; technical "know-how"; or stock of another corporation.
3. The transfer is not the result of the solicitation by a promoter, broker, or investment house.
4. The Transferors will not retain any rights in the property transferred to Taxpayer.
5. None of the property to be transferred to the Taxpayer will be leased back to any of the Transferors, other shareholders, or a related party.
6. Any debt relating to the stock being transferred that is being assumed (or to which such stock was subject) was incurred to acquire such stock and was incurred when such stock was acquired, and each of the Transferors is transferring all of the stock for which the acquisition indebtedness being assumed (or to which such stock is subject) was incurred.
7. No stock of a bank is being transferred to Taxpayer and no application to form a bank holding company has been or will be filed with the Federal Reserve Board.
8. The adjusted basis and the fair market value of the assets to be transferred by the Transferors to Taxpayer will, in each instance, be equal to or exceed the sum of the liabilities to be assumed by Taxpayer plus any liabilities to which the transferred assets are subject.
9. The liabilities of the Transferors to be assumed by Taxpayer were incurred in the ordinary course of business and are associated with the assets to be transferred.
10. There is no indebtedness between Taxpayer and the Transferors and there will be no indebtedness created in favor of the Transferors as a result of the transaction.

11. The Transferors will not receive any property other than Non-Voting Common stock of Taxpayer.
12. The transfers and exchanges will occur under a plan agreed upon before the transaction in which the rights of the parties are defined.
13. All exchanges will occur on approximately the same date.
14. No stock issued by Taxpayer will be placed in escrow or issued later under a contingent stock arrangement.
15. Taxpayer has no intention of issuing any stock in the near future.
16. None of the Transferors has a plan, option, or any present intention to dispose of any shares of Non-Voting Common stock of Taxpayer received in the Exchange, except to the extent that the Targets are deemed to distribute Non-Voting Common in the Mergers.
17. There is no plan or intention on the part of Taxpayer to redeem or otherwise reacquire any stock or indebtedness to be issued in the proposed transaction.
18. Taking into account any issuance of additional shares of Taxpayer stock; any issuance of stock for services; the exercise of any Taxpayer stock rights, warrants, or subscriptions; a public offering of Taxpayer stock; and the sale, exchange, transfer by gift, or other disposition of any of the stock of Taxpayer to be received in the Exchange, the Transferors will be in "control" of Taxpayer within the meaning of § 368(c).
19. Each Transferor will receive stock or other property approximately equal to the fair market value of the property transferred to Taxpayer or for services rendered or to be rendered for the benefit of Taxpayer.
20. Taxpayer will remain in existence and retain and use the property transferred to it in a trade or business.
21. There is no plan or intention by Taxpayer to dispose of the transferred property other than in the normal course of business operations.
22. Except with respect to the Recapitalization and the Mergers, Taxpayer has no intention to engage in loans, sales, exchanges, or other transactions, other than recurring arm's length sales, purchases, etc. in the normal course of business.
23. Each of the parties to the transaction will pay its or his/her own expenses, if any, incurred in connection with the proposed transaction.

24. Taxpayer will not be an investment company within the meaning of section 351(e)(1) and Treasury Regulations § 1.351-1(c)(1)(ii).
25. Taxpayer does not intend to make the election under section 1362(a) to be taxed as a "small business corporation" as defined in section 1361(a).
26. Taxpayer is not under the jurisdiction of a court in a title 11 or similar case (within the meaning of section 368(a)(3)(A)) and the stock received in the Exchange will not be used to satisfy the indebtedness of such debtor.
27. Taxpayer will not be a "personal service corporation" within the meaning of section 269A.

Rulings

Based solely on the information submitted and representations made, we rule as follows:

- (1) The Recapitalization will constitute a reorganization under § 368(a)(1)(E). Accordingly, no gain or loss will be recognized by Taxpayer on the Recapitalization.
- (2) No gain or loss will be recognized by Shareholders 4, 5, and 6 on the Recapitalization (§ 354(a)).
- (3) The basis of Voting Common stock received in the Recapitalization will equal the basis of Non-Voting Common stock surrendered in the exchange (§ 358(a)(1)).
- (4) The holding period for Voting Common stock received in the Recapitalization will include the period during which the shares of Non-Voting Common surrendered in the exchange were held, provided that the surrendered shares were held as a capital asset on the date of the exchange (§ 1223(1)).
- (5) Provided the Mergers qualify as statutory mergers, the Mergers will be reorganizations under § 368(a)(1)(A). Taxpayer and each Target will be "a party to a reorganization" within the meaning of § 368(b).
- (6) No gain or loss will be recognized by the Targets on the exchange of their Non-Voting Common for newly-issued Non-Voting Common (§§ 361(a) and 351(a)).
- (7) No gain or loss will be recognized by Taxpayer on the receipt of Non-Voting

Common held by the Targets in exchange for newly-issued Non-Voting Common (§ 1032(a)).

(8) No gain or loss will be recognized by the Targets on the distribution of Taxpayer's Non-Voting Common to the Targets' shareholders pursuant to the plans of reorganization (§ 361(c)(1)).

(9) No gain or loss will be recognized by the shareholders of the Targets on the exchange of their stock in the Targets for newly-issued Non-Voting Common (354(a)).

(10) The basis of Non-Voting Common received by each Target shareholder in the Mergers will equal such shareholder's basis in the Target stock surrendered in exchange (a) decreased by the amount of cash received and (b) increased by the amount treated as a dividend and the amount of gain recognized by the shareholder on the exchange (not including any part of the gain treated as a dividend) (§ 358(a)(1)).

(11) The holding period of Non-Voting Common received by each Target shareholder in the Mergers will include the period during which such shareholder held the Target stock surrendered in exchange therefor, provided the Target stock was held as a capital asset at the time of the Mergers (§ 1223(1)).

(12) Pursuant to § 381 and § 1.381(a)-1, Taxpayer will succeed to and take into account the items of the Targets described in § 381(c), subject to the conditions and limitations specified in §§ 381, 382, 383 and 384 and the regulations thereunder.

(13) The transfers by the Targets to Taxpayer in the Mergers and the transfers by Shareholder 2 and Shareholder 9 to Taxpayer represent a transaction within the provisions of § 351(a). Rev. Rul. 68-357, 1968-2 C.B. 144. Accordingly, no gain or loss will be recognized by Shareholder 2 and Shareholder 9 on the transfer of Property Interests and Property 2 to Taxpayer (§ 351(a)).

(14) The basis in the Non-Voting Common received by Shareholder 2 and Shareholder 9 will be the same as their basis in the respective property transferred (§ 358(a)).

(15) The holding period of the Non-Voting Common received by Shareholder 2 and Shareholder 9 will include the period during which each shareholder held the respective property transferred, provided that such property was held as a capital asset at the time of the Exchange (§ 1223(1)).

(16) No gain or loss will be recognized by Taxpayer on the receipt of Property Interests and Property 2 in exchange for its Non-Voting Common transferred in the Exchange (§ 1032(a)).

(17) The basis in Property Interests and Property 2 received by Taxpayer will be the same as the basis of such property in the hands of the Transferors (§362(a)).

(18) The holding period of Property Interests and Property 2 received by Taxpayer will include the holding period during which such property was held by the respective Transferors (§1223(2)).

Caveats and Procedural Statements

This ruling is being directed only to the taxpayer requesting it. Section 6110(k)(3) provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

No opinion is expressed about the tax treatment of the Transaction under other provisions of the Code or regulations, or the tax treatment of any conditions existing at the time of, or effects resulting from, the Transaction that are not specifically covered by the above rulings.

Each taxpayer involved in this transaction should attach a copy of this ruling letter to the taxpayer's federal income tax return for the taxable year in which the transaction covered by this letter is completed. Alternatively, taxpayers filing their returns electronically may satisfy this requirement by attaching a statement to their return that provides the date and control number of the letter ruling.

Sincerely,

Gerald B. Fleming
Senior Technician Reviewer, Branch 2
Office of Associate Chief Counsel
(Corporate)

cc: